

# Annual Audit Letter

## Harrogate Borough Council

Year ending 31 March 2020





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Harrogate Borough Council (the Council for the year ended 31 March 2020). Although our letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide information on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 7 April 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2019/20.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO, on 7 April 2021, we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the Whole of Government Accounts return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Council's financial position and of its financial performance.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended. We emphasised material uncertainties in our auditor's report, as set out below:

#### **Emphasis of Matter - material uncertainty relating to valuations of land and property and investment property**

*We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment property. As disclosed in note 4 of the financial statements, the Council's valuer included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.*

#### **Emphasis of Matter - material uncertainty relating to pooled investment property funds**

*We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's pooled investment property funds. As disclosed in note 4 of the financial statements, the funds in which the Council has invested included a 'material valuation uncertainty' declaration in their year-end statements as a result of the Covid-19 pandemic impacting on the relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.*

#### **Emphasis of Matter - material uncertainty relating to pension fund property investment valuations**

*We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's share of pension fund property investments. As disclosed in note 4 of the financial statements, the pension fund has included a 'material valuation uncertainty' in their accounts as a result of the Covid-19 pandemic impacting on the relevant market evidence for these investments. Our opinion is not modified in respect of this matter.*



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

Opinion on the financial statements

**Unqualified**

### The scope of our audit and the results of our work (continued)

#### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) because of the nature of certain items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

		<b>Council</b>
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure at the surplus/deficit on provision of services	£2.466m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality	£0.074m



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks and key areas of management judgement identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report.

The following tables summarise the identified risks, the work we carried out and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefit liability valuation (pensions)</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p><b>Economic downturn</b></p> <p>The risk has increased as a result of the economic downturn arising from COVID-19, in particular in relation to pension assets.</p> <p><b>McCloud</b></p> <p>The McCloud and Sargeant cases relate to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury launched a consultation on the mechanism that they propose to use in order to remedy the transitional arrangements introduced as part of the 2015 reforms to public service pensions. In respect of the LGPS, a specific consultation has been released on the proposed remedy by MHCLG.</p>	<p><b>How we addressed this risk</b></p> <ul style="list-style-type: none"> <li>we critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li> <li>we challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office.</li> <li>we considered the assurance received from the Pension Fund auditor, including in respect of the triennial valuation; and</li> <li>we considered the impact of the consultation issued in July 2020 on the remedy for the McCloud pensions case.</li> </ul>	<p>As set out earlier in this letter, we drew attention to the material uncertainty disclosed by the Council in respect of its share of the Pension Fund assets, arising from the pandemic.</p> <p>There are no issues we are required to report to you and we obtained sufficient and appropriate evidence.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

### Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<p><b>Property, plant and equipment and investment property valuations</b></p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment and also investment properties. The Council uses valuation experts to provide information on valuations and there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment and investment properties, due to the significant judgements and number of variables involved.</p> <p>The risk has increased as a result of the economic downturn arising from COVID-19. We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by valuers, where appropriate, of material uncertainty declarations in their valuation reports.</p>	<ul style="list-style-type: none"> <li>we critically assessed the Council's arrangements for ensuring that valuations are reasonable;</li> <li>we critically assessed the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's valuers;</li> <li>we considered the competence, skills and experience of the six valuers used this year (including the Council's internal valuer) and the instructions issued to the Valuers; and;</li> <li>where necessary, we performed further audit procedures on individual assets to ensure the basis of valuations was appropriate, including the Harrogate Convention Centre (HCC (property, plant and equipment) and the Victoria Gardens Shopping Centre (investment property). We commissioned our own expert to review of the valuations of the HCC and the Shopping Centre, because of the economic downturn and also the changed use of the HCC from April 2020.</li> </ul>	<p><b>Shopping centre</b></p> <p>The Council obtained a valuation from an external Valuer; we also, given the economic downturn, commissioned a review by an external Valuer. We obtained the assurance sought, with no significant issues arising; we noted the significant decrease in the value of the shopping centre over the last decade.</p> <p><b>Harrogate Convention Centre (HCC)</b></p> <p>The Council obtained a valuation from an external Valuer; we also, given the economic downturn, commissioned a review by an external Valuer. The Council amended its financial statements by £0.5 million. We reported an unadjusted difference between our Valuer's estimate and that of the Council of £0.8 million to £1.1 million.</p> <p><b>Shared ownership properties</b></p> <p>Audit work identified the valuation of shared ownership properties required amendment, as the social housing adjustment factor of 41% had not been applied to the valuations, as required by stock guidance issued by central government. This resulted in a downwards valuation of the properties and as it was a material adjustment, prior years were restated.</p> <p><b>Overall</b></p> <p>As set out earlier in this letter, in our auditor's report, we drew attention to the material uncertainty disclosed by the Council's Valuers.</p> <p>We did not identify any material misstatement of the Council's Property, Plant &amp; Equipment, following the amendments highlighted above.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

### Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b> Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>	<p>There were no significant issues arising from our work that we were required to report to you.</p>
<p><b>Risk of fraud in revenue recognition – year-end income accruals</b> There is a risk of fraud in revenue recognition because of the potential to inappropriately shift the timing and basis of revenue recognition, as well as the potential to record fictitious revenues or fail to record actual revenues. For the Council, our view is that the revenue recognition significant risk is present in relation to year-end income accruals.</p>	<p>How we addressed this risk:</p> <ul style="list-style-type: none"> <li>• we evaluated controls in place to mitigate the risk of income being recognised in the wrong period;</li> <li>• we tested year-end receipts to ensure income had been recognised in the right year;</li> <li>• we tested adjustment journals; and</li> <li>• we obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger.</li> </ul>	<p>There are no significant issues arising from our work that we are required to report to you.</p>

### Our response to enhanced risks

Identified enhanced risk	Our response	Our findings and conclusions
<p><b>NNDR (business rates) provision</b> The Council has disclosed its provision for NNDR (business rates) appeals as an area of estimation uncertainty in the financial statements. We consider this to be an area of enhanced risk in relation to the portion of the provision in relation to the new valuation list.</p>	<p><b>How our audit addressed this risk:</b></p> <ul style="list-style-type: none"> <li>• we challenged the estimates and assumptions made by the Council; and</li> <li>• carried out substantive procedures to gain assurance over the provision, including casting and recalculation of the Council's provision for NNDR appeals.</li> </ul>	<p>There were no significant issues arising from our work that we were required to report to you.</p>





## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

<b>Description of deficiency</b>	<p><b>Member approval of employee settlement agreements – level 2 (medium priority)</b></p> <p>The Council has appropriately disclosed 'exit packages' in its revised statement of accounts. Exit packages include those arising from redundancy and also those which include compensation for loss of office (e.g. via reaching a settlement agreement, including ex-gratia payments).</p> <p>The Constitution currently provides for delegated approval by the Monitoring Officer for settlement agreements. We encourage Members to consider updating their risk management arrangements for employee settlement agreements to ensure that, for each case, members also approve payments after satisfying themselves that:</p> <ul style="list-style-type: none"> <li>• there is a clear rationale and payments comply with legislation;</li> <li>• costs are minimised; and</li> <li>• available options have been considered.</li> </ul>
<b>Potential effects</b>	Lack of balance between risk of inappropriate expenditure and that of allowing ineffective employment relationships to continue.
<b>Recommendation</b>	The Council should consider updating risk management arrangements for settlement agreements.
<b>Management response</b>	The existing process already recognises that there must be a clear rationale for payments which complies with legislation; that costs should be minimised and available options considered; and amounts properly authorised and appropriately disclosed in the accounts. Although the number of such cases has been small, and flexibility is sometimes needed to deal with them in a timely manner, the Council will review its processes in order to ensure Member involvement in future decisions.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

### Internal control recommendations

<b>Description of deficiency</b>	<b>Housing benefits quality assurance checks – level 2 (medium priority)</b> Our walkthrough of the housing benefit system key controls highlighted there is scope to improve the level of benefit entitlement quality assurance checks which are performed.
<b>Potential effects</b>	Risk of fraud and / or error.
<b>Recommendation</b>	Review the scope and level of housing benefit quality assurance checks.
<b>Management response</b>	This is being actioned.

<b>Description of deficiency</b>	<b>Adequacy of payroll documentation where more than one post held – level 2 (medium priority)</b> Our walkthrough of the payroll system key controls included an employee who held two posts within the Council; for one of these posts, there was no formal documentation available to evidence the salary.
<b>Potential effects</b>	Risk of fraud and / or error.
<b>Recommendation</b>	Salaries should be supported by formal documentation setting out the amount to be paid.
<b>Management response</b>	This will be actioned.



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

### Prior year internal control recommendations

<p><b>Description of deficiency</b></p>	<p><b>Property, plant and equipment valuations - level 1 (high priority, significant deficiency in internal control)</b></p> <p>Audit work in 2017/18 identified that valuations of certain categories of property, plant and equipment (PPE) had not been reviewed as required for any significant changes in the underlying indices used to value them at the end of the year. As a result, PPE was misstated.</p> <p>It is common practice for valuations in local government to be made as at 1 April. However, the general requirement to ensure that transactions and balances are not materially misstated might make necessary a valuation as at some other date. It should be noted that whatever the date of the valuation (including those at 1 April), the Code's adoption of IAS 16 requires the carrying value of non-current assets in local authority balance sheets to be materially accurate at 31 March.</p> <p>Audit work in 2018/19 identified an error in respect of the valuation of council dwellings.</p>
<p><b>Potential effects</b></p>	<p>Material misstatement of Property, Plant and Equipment.</p>
<p><b>Recommendation</b></p>	<p>2017/18: the Council should review and strengthen controls in place for considering valuations across the full rolling programme at the year-end and ensuring the carrying value of non-current assets is not materially misstated at 31 March.</p> <p>2018/19: specific recommendation in respect of error in respect of the valuation of council dwellings, due to a spreadsheet error.</p>
<p><b>Position for 2019/20</b></p>	<p>The Council reviewed its controls in place for the valuation of PPE and has strengthened controls over the last two years.</p> <p>Specific issues were identified in 2019/20, in respect of the valuation of the Conference Centre and also shared ownership properties, which required amendments to the financial statements.</p>
<p><b>Description of deficiency</b></p>	<p><b>Lack of Audit and Governance Committee approval of accounting policies - level 3 (housekeeping recommendation)</b></p> <p>The Audit and Governance Committee does not currently formally approve the accounting policies used in preparing the Statement of Accounts.</p>
<p><b>Potential effects</b></p>	<p>Lack of oversight and inappropriate accounting policies.</p>
<p><b>Recommendation</b></p>	<p>It is good practice for a report to be taken to the Audit and Governance Committee annually setting out the proposed accounting policies including any changes, ahead of the Statement of Accounts being prepared.</p>
<p><b>Position for 2019/20</b></p>	<p>This remains a recommendation.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS: Harrogate Borough Council

### Prior year internal control recommendations

<b>Description of deficiency</b>	<b>Strength of Northgate password parameters (Level 3)</b> The password parameters for Northgate are not as strong as they could be or in line with good practice.
<b>Potential effects</b>	Risk of fraud and / or error.
<b>Recommendation</b>	Consider enhancing the complexity of Northgate password parameters.
<b>Position for 2019/20</b>	There are no significant issues arising that we are required to report to you.

<b>Description of deficiency</b>	<b>Journal narrative (Level 3)</b> Testing identified not all journals reviewed included appropriate explanatory narrative.
<b>Potential effects</b>	Risk of fraud and / or error. Strong journal controls are an integral part of the general ledger system, helping prevent and detect potential error and misstatement.
<b>Recommendation</b>	Users should be reminded to ensure adequate narrative is provided to support journals.
<b>Position for 2019/20</b>	This remains a recommendation.



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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#### Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor’s report, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p>The coronavirus pandemic set an unprecedented challenge for all councils; to maintain business critical services, reconfigure service delivery models to support the health and safety of staff and customers and critically, to determine and deliver support to communities, vulnerable residents and businesses during the pandemic.</p> <p>The Council has responded to the pandemic by refocusing its corporate plans, including specific COVID-19 recovery plans, covering three main themes:</p> <ul style="list-style-type: none"> <li>• economic recovery;</li> <li>• financial recovery; and</li> <li>• community recovery.</li> </ul> <p>Fundamental to the Council’s overall future arrangements is the success of the overarching transformation programme, “2024”, which is underpinned by a longer-term financial strategy and continuing to align expenditure with corporate priorities. The Council has reviewed this programme, alongside the Service Plan review, in order to ensure that there is clarity in the prioritisation of projects alongside Service Plan actions.</p> <p>The Council has continued to report regularly on its financial performance to Cabinet and the Management Board. For 2019/20, there was an overspend against budget of £327k. This compares to an underspend of £380k in 2018/19 and of £1.8m in 2017/18. The COVID-19 pandemic, however, affected the Council towards the end of the financial year and accounts for an estimated £270k of the overspend.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making (continued)	<p>The Council's General Fund unearmarked balance is £2.3m (£2.6m as at 31 March 2019); plans are in place to replenish the General Fund balance to the Council's policy level of £2.5m in 2020/21. We note also the Investment Reserve, totalling £15.2m (£15m as at 31 March 2019), being the funds set aside for capital projects.</p> <p><i>Financial and performance information and reliable and timely financial reporting</i> Our consideration of the Council's Medium-Term Financial Strategy, budget monitoring and its financial recovery plan is set out later in this section of the report (significant risk).</p> <p><i>Managing risks effectively and maintaining a sound system of internal control (continued)</i> The governance framework is set out in the Annual Governance Statement (AGS), published as part of the Annual Report including financial statements, along with how the effectiveness of that framework is reviewed throughout the year. The draft AGS also sets out the governance issues the Council has identified for monitoring and action in the coming year which include:</p> <ul style="list-style-type: none"> <li>• COVID-19 recovery governance arrangements; and</li> <li>• evidencing completion by staff of mandatory training.</li> </ul> <p>The Council received an overall 'satisfactory' internal audit opinion for 2019/20. A comprehensive internal audit plan is in place which takes into account the strategic priorities of the Council. There is challenge by the Audit and Governance Committee over coverage and risk areas.</p>	Yes
Sustainable resource deployment	<p>The Council has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of delivering planned budget reductions.</p> <p><i>Financial resilience</i> As set out earlier in this section, the Council had a small overspend of £0.380m in 2019/20, of which £0.270m related to COVID-19. The Council has maintained comparatively healthy levels of usable reserves; £24.9 million as at 31 March 2020 (£23.6m million at 31 March 2019). Although these are earmarked for specific purposes, they do provide flexibility to manage the medium-term financial position.</p> <p><i>Performance management</i> Areas of concern in the Council's year-end performance report include:</p> <ul style="list-style-type: none"> <li>• sport and leisure attendances;</li> <li>• the number of new homes built by the Council;</li> <li>• average length of stay in temporary hostel accommodation;</li> <li>• Spa Lane development;</li> <li>• creation of a temporary Digital Incubator at Springfield House;</li> <li>• supporting the review of convention site; and</li> <li>• completion of the sport and leisure review.</li> </ul>	Yes



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council's Annual Governance Statement sets out the governance arrangements for key partnerships and highlights the annual review of key partnerships that is undertaken.</p> <p><i>Working with third parties effectively</i>            In response to COVID-19, the Council activated its Incident Management Plan. As the pandemic developed, management at a regional level was coordinated through the North Yorkshire Local Resilience Forum (NYLRF), the partnership of local agencies working together to manage emergencies. Within the NYLRF, the Response to Major and Critical Incidents (RMCI) procedure was activated for the multi-agency strategic/tactical response.</p> <p>A Local Outbreak Management Plan is in place, overseen by a recently established Outbreak Management Board, which includes Council representation.</p> <p><i>Workforce</i>            The Council has redeployed officers in this period of exceptional demand and recognises their valuable work, working alongside partners to support communities.</p>	Yes



## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. On 7 April 2021 we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the WGA return.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.





## 5. OUR FEES

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in March 2020.

For the 2019/20 financial year, our fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£39,425	£56,352*
Non-audit fee work: pooled capital receipts return	£2,250	£2,250

\* At the time of preparing this report, we are proposing additional fees to meet additional work required for:

- additional regulatory requirements in respect of land and building valuations, including additional considerations for material uncertainty disclosures made by the Valuer as a result of the pandemic;
- additional regulatory requirements in respect of pensions, including additional considerations for material uncertainty disclosures in respect of the Council's share of the Pension Fund assets as a result of the pandemic;
- additional work in respect of some disclosures;
- additional work in respect of Victoria Gardens shopping centre; and
- additional work in respect of the Harrogate Convention Centre.

We have discussed the proposed additional fees for 2019/20 with the Head of Finance; the fee variation is then subject to review by Public Sector Audit Appointments Limited before it is finalised, including whether any elements of the additional work is in respect of recurrent work.



## 6. FORWARD LOOK

### Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Council continues to monitor and refresh its medium term financial strategy, so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

### Strategic and operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Key challenges for the year ahead include:

- reopening the Harrogate Convention Centre;
- setting up the new leisure company;
- successfully generating the savings necessary to deliver the medium term financial plan; and
- delivering the projects associated with the 2024 transformation programme

### How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are, however, significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however, unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code has been issued by the National Audit Office and we have presented these key changes to the Audit and Governance Committee. There may be additional fees required as a result of this changed work.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local Council financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of Audit Committees; and
- increasing transparency and reducing the complexity of local Council financial statements.

The recommendations and findings were considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement any changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

MHCLG's response is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review>



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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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